



SAICA

THE SOUTH AFRICAN INSTITUTE
OF CHARTERED ACCOUNTANTS

MARKERS' AND UMPIRES' COMMENTS INITIAL TEST OF COMPETENCE (PREVIOUSLY KNOWN AS PART I OF THE QUALIFYING EXAMINATION) JUNE 2013

OBJECTIVES OF THIS REPORT

This report has been compiled from the analysis of examiners on candidates' performance in the Initial Test of Competence (ITC) – previously known as Part I of the Qualifying Examination, which was written in June 2013. Its objectives are to –

- assist unsuccessful candidates in identifying those areas in which they lost marks and need to improve their knowledge and/or presentation; and
- assist future exam candidates, by providing a commentary for them to use when working through past papers.

To accomplish these objectives, the report provides background information on how the examination questions are chosen, marked and adjudicated, comments on general shortcomings in answers and specific comments on each question of the two examination papers.

The purpose of the ITC is to test the integrated application of technical competence, preferably as soon as possible after the prescribed academic requirements have been met.

The remainder of this report is discussed under the following headings:

- Statistics for ITC June 2013
- Background information on the setting, marking and adjudication of SAICA examinations
- General comments on ITC June 2013
- Detailed comments by question
 - Professional paper 1
 - Professional paper 2
 - Professional paper 3
 - Professional paper 4

STATISTICS FOR ITC June 2013

For the first time in 2013, SAICA offered a second sitting of the ITC in June. The candidate population for this exam comprises repeat candidates only and there are therefore no first time candidates included in the population.

	% Pass	Passed	Failed	Total
First attempt	0%	0	0	0
Repeat candidates	41%	360	516	876
All candidates	41%	360	516	876

Average marks per question

	Question 1	Question 2	Total
Paper 1			
Total marks	60	40	100
Average marks	27	21	48
Paper 2			
Total marks	45	55	100
Average marks	25	21	46
Paper 3			
Total marks	80	20	100
Average marks	43	11	54
Paper 4			
Total marks	44	56	100
Average marks	17	24	41

Attempts at the exam are now calculated as follows:

CTA year	First attempt	Second attempt	Third attempt	Fourth attempt	Fifth attempt	Sixth attempt
2012	Jan-13	Jun-13	Jan-14	Jun-14	Jan-15	Jun-15
2011	Jan-12	Jan-13	Jun-13	Jan-14	Jun-14	Jan-15
2010	Jan-11	Jan-12	Jan-13	Jun-13	Jan-14	Jun-14
2009	Jan-10	Jan-11	Jan-12	Jan-13	Jun-13	Jan-14
2008	Jan-09	Jan-10	Jan-11	Jan-12	Jan-13	Jun-13

More detailed statistics can be found on the SAICA website at www.saica.co.za.

BACKGROUND INFORMATION ON THE SETTING, MARKING AND ADJUDICATION OF SAICA EXAMINATIONS

The Examinations Committee (Examco) constantly strives to improve its ability to determine whether candidates demonstrate a readiness to continue with their accounting education and training. This is done by means of an ongoing process of evaluation and improvement of the way in which it selects questions for inclusion in the examination and decides on the final mark plans.

1 Source of the questions

Examco is a sub-committee of the SAICA Initial Professional Development Committee (IPD Committee), and takes overall responsibility for the setting of the examination paper. Examination questions are drawn from different sources:

- Questions may be submitted by practitioners, accountants in commerce and industry, as well as academics. These questions are added to a question pool that has been built up over the years and from which questions may be selected; or
- Questions on a particular subject may be commissioned from persons in commerce and industry or public practice or from academics.

Academics or former academics are also involved in reviewing exam questions in each of the core subject areas. Academics who have any involvement whatsoever in the presentation or otherwise of Board courses may NOT act as reviewers. These academics or former academics are appointed by core subject area and their role is to –

- review questions for conceptual problems and consistency in use of terminology;
- give an indication as to whether the relevant examination questions are set at an appropriate level;
- provide comments on whether the number of marks and time limit are appropriate; and
- provide comments on the validity and reliability of such assessment.

In addition, two external examination sitters, who are independent of the exam setting process, are appointed to review the entire set of questions after the review by the academics has been completed. The examination sitters provide independent comments on the examination paper, suggestion solutions or mark plans which are reported to the Examco.

SAICA would like to acknowledge and thank all the people involved in the examination setting process. An alphabetical list of all the people involved in various roles, including members of the Examinations Committee, question composers, subject specific reviewers and external examination sitters, is as follows:

Greg Beech
Graeme Berry
Helen Bimbassis
Alex Brettenny
Carol Cairney
Glynnis Carthy
Karien Coates
Fred de Hart
Reghardt Dippenaar
Cobus Grove
Andre Hamel
Thinus Hamman
Muneer Hassan
Beverley Jackson

Goolam Modack
Ferdinand Mokete
Terry Moore
Veryl Mulder
Piet Nel
Renshia van Noordwyk
Mandi Olivier
Greg Plant
Jo-Ann Pohl
Karen Stark
Kobus Swanepoel
Amanda Singleton
Dirk Steyn
Sandy van der Walt

Dana Josset
Tracy Krauss
Francois Liebenberg
Zwelo Mabhoza

Nico van der Merwe
Pieter von Wielligh
Craig Wallington

2 Security and confidentiality of examination papers

The examination papers for each year are compiled, printed and sent to each examination centre under very stringent conditions of security. The only persons who know the contents of a particular paper are the members of the Examco. They are all selected with great care regarding their integrity and professional standing and are sworn to secrecy.

3 The marking process

The Examco devotes a great deal of time to the review and refinement of mark plans to ensure that the plans are consistent with its expectations for each question.

Before marking of the scripts commences, copies of the examination papers and suggested solutions are forwarded to all participating universities for comment. The markers and umpires decide on a suggested solution and mark plan once all these comments have been considered and a test batch of scripts has been marked. The suggested solutions, mark plans and test batch results are then reviewed by the Examco, which authorises the final suggested solutions and the mark plans that will be used in the marking process.

Marking is undertaken by teams, with each team consisting of a number of markers (comprising academics, practitioners and representatives from commerce and industry) and an umpire, who are on the whole fully bilingual and equally capable of marking both English and Afrikaans scripts. Markers and umpires are assigned to specific questions based on their fields of expertise.

All markers and umpires have to sign a declaration of secrecy regarding the handling of scripts, questions, solutions and mark plans. SAICA holds the copyright of the solutions and mark plans.

Marking of ITC June 2013 again took place at a central mark centre. An administration hub was set up, from which administrative personnel controlled which scripts were signed out, to whom and when the marked scripts were returned. All marking took place at the central mark centre. Each script was marked independently by two different persons who recorded their marks on separate mark sheets. Only once the double blind marking of each batch of scripts was completed did the markers confer and jointly decide on the final mark to be awarded (i.e. during the marking process). Thereafter each marker's mark, as well as the final mark, was noted down on the cover of the script. In the event of the markers being unable to agree upon the number of marks to be awarded for a particular answer, the script was referred to the umpire, who then awarded the final mark. SAICA secretariat was responsible for capturing and final checking of the marks of all candidates.

Consistency marking was introduced in 2012, in which a pack of ten scripts are selected on a random basis by SAICA's Examinations Unit, and the exam numbers removed. These scripts are numbered from 1 – 10 and photocopied. Every person on the mark team has to mark the question to which they have been assigned in the batch of ten scripts. This takes place on the first two days of the main marking process and the umpire, together with his/her mark team, then discuss how the individual markers award the marks point by point for each question. The aim of this process is to identify any concerns, differences and discrepancies in interpretation that the marker(s) may have in awarding of marks as per the final mark plan before final marking commences. The main objective is to achieve consistency in the way the different markers within a mark team award marks.

In view of the above stringent marking process no request for re-marks will be entertained.

4 Adjudication

Adjudication is a process during which the IPD Committee considers all relevant evidence, including the following, to determine the final marks to be awarded for each question:

- Whether there were any time constraints encountered by candidates;
- The level of difficulty for each question;
- Possible ambiguity in the wording or translation; and
- Any other problems that may have been encountered relating to the examination.

The members of the Committee do not know the candidate details at the time the adjudication process takes place.

Adjudication is done by the full IPD Committee as soon as possible after the marking process has been finalised and checked by the SAICA secretariat.

It is important to note that no person from the academe who is a member of SAICA's IPD Committee is allowed to serve on the Examco, and that candidates' anonymity is preserved until the final adjudication has been completed.

In order to ensure that the whole marking and adjudication process remain anonymous, the instructions to candidates clearly state that their names should not appear anywhere on their scripts.

GENERAL COMMENTS ON ITC June 2013

1 Objective

In view of the primary objective of ITC, namely to test the integrated application of technical competence, candidates are tested on their ability to –

- apply the knowledge specified in the subject areas set out in the prescribed syllabus;
- identify, define and rank problems and issues;
- analyse information;
- address problems in an integrative manner;
- exercise professional judgement;
- evaluate alternatives and propose practical solutions that respond to the users' needs; and
- communicate clearly and effectively.

2 Overall comments on the papers

Overall comments received from universities indicated that the papers were of an appropriate standard for ITC.

- The **accounting and external reporting question's** level of difficulty was generally described as "moderate to difficult" and of a good standard. The questions required candidates to have a good knowledge of and solid foundation regarding the basic principles underlying the topics. Topics examined were relevant and of importance both in practice and in the academic syllabus.

However, a few areas relating to general exam technique need to be highlighted, and may be of use to candidates for purposes of future examinations:

- Many candidates struggled to articulate the application of principles before arriving to the conclusion. This was most evident in discursive type questions.
 - Candidates did not provide enough journals which made it difficult for the candidates to do really well in the question.
- The **tax** question was set at an appropriate level of difficulty. Many candidates were not up to date with the latest developments of dividends tax and got confused between STC and dividends tax. In the discursive tax question candidates lost marks as they did not use the memo format which was asked for and failed to discuss all elements of tax avoidance and General Anti Abuse Rule.
 - The **strategy, risk management and governance** question was set at a moderate level of difficulty. It was an excellent question which identified the stronger candidates. Exam technique proved to be problematic as in prior years. Many candidates did not read the required carefully which resulted in generic mind dump answers outside the scope of the question.
 - The **management decision making and control** question was a fair to moderate question, however candidates failed to exhibit critical thinking and application of knowledge in the discussion type sections of the question. Candidates did however do well in the calculation aspects of the question.
 - The **auditing** question was moderate to difficult and candidates struggled to interpret the information of the scenario. The question was reasonably well answered by candidates however as highlighted in prior years examination technique was again, a problem. Many candidates did not read and consider the information of the question carefully or apply this in answering the question. This often resulted in generic or mind dump answers.

- The **financial management** question was moderate in terms of difficulty and yet candidates overall performance in the question was most disappointing. Candidates struggled in particular with the application of how hedging instruments are able to mitigate against foreign currency movements, and they were also confused in the calculation for estimating the impact of the introduction of a settlement discount on profits and cash flows. This indicated strongly that candidates were unable to interpret the information in the question to be able to perform relevant calculations.
- **Pervasive skills** were assessed once again in this exam with communication skills being given additional prominence by the required, specifically setting out which aspect of communication skills was being assessed.

3 Specific comments

From a review of candidates' answers to the eight questions for the June 2013 examination, the general deficiencies set out below were identified. These problems affected the overall performance of candidates, and it is a matter of concern that candidates make the same mistakes year after year. Although these aspects seem like common sense, candidates who pay attention to them are likely to obtain better marks, and it may even turn a low mark into a pass.

3.1 *Application of knowledge*

A serious problem experienced throughout the examination was that candidates were unable to **apply** their knowledge to the scenarios described in the questions. Many responses by candidates were a 'shopping list' of items – this being a pure regurgitation of what candidates may have learnt about the theory at university, but of no real relevance to the question in hand. Candidates also do not appear to be able to identify the correct issues in the scenario provided.

This is a major concern, because by the time candidates qualify for entry to these examinations, one would expect them to have assimilated the knowledge, at least to the extent of being able to apply it to simplified facts as set out in an examination question. Obviously, candidates who are unable to identify the correct issues did not do well in the examination.

3.2 *Workings*

It is essential that candidates show their workings and supply detailed computations to support the figures in their answers. Marks are reserved for methodology, but can only be awarded for what is shown. Workings should, like the rest of the paper, be done in blue or black ink to ensure legibility. In many instances workings were performed by candidates but not cross-referenced to the final solution. In such instances, markers could not award marks as they were unable to follow which working related to which part of the final solution. Candidates must ensure they show their workings and that these are properly and neatly cross-referenced to the final solution.

3.3 Journal entries

A fundamental part of financial accounting is an understanding of debits and credits. A means of assessing whether a candidate understands the fundamental principles is to require the candidate to prepare the relevant journal entries. Candidates increasingly do not understand what journal entries they need to process. In many instances basic journal entries were processed the wrong way around. In addition, account descriptions were poor and abbreviations were used.

This is inexcusable and candidates must ensure that they understand what impact transactions would have on specific account balances, by showing that they know which account in the income statement or balance sheet has to be debited or credited. It is not sufficient for a candidate with Accounting IV to be a technocrat – understanding of the fundamental principles of accounting is critical to the success of a candidate at the ITC level.

3.4 Time management

Candidates are advised to use their time wisely and budget time for each question. The marks allocated to each question are an indication of the relevant importance the examiners attach to that question and thus the time that should be spent on it. Candidates should beware of the tendency to spend too much time on the first question attempted and too little time on the last. They should never overrun on time on any question, but rather return to it after attempting all other questions.

3.5 Communication

Candidates fared better in questions requiring calculations than in discursive questions. It is important that candidates bear in mind that written answers are a large component of the ITC, because written communication is a key competency required in the workplace. Candidates should at this stage in the qualification process be able to answer discursive questions properly. This can be done by practicing exam-type answers under exam conditions in preparation for the examination.

In addition markers found that candidates used their own abbreviations (sms messaging style) in their answers. Marks could not be awarded here as it is not up to the markers to interpret abbreviations that are not commonly used. The increased use of sms style of writing in a professional examination is a major concern. Candidates should pay specific attention to the way in which they write their answers, and bear in mind that this is a professional examination for which communication marks are awarded. For more information on communication please visit the SAICA exams website to access guidelines on applying communication skills in the ITC.

3.6 Layout and presentation

Candidates should allocate time to planning the layout and presentation of their answers before committing thought to paper. Very often, candidates start to write without having read the question properly, which invariably leads to, for example, parts of the same question being answered in several places or restatement of facts in different parts. Marks are awarded for appropriate presentation and candidates should answer questions in the required format, that is, in the form of a letter, memorandum or a report, if this is what is required.

The quality of handwriting is also an ongoing problem and was of particular concern in this year's examination. **The onus is on the candidate to produce legible answers.**

Separate books are used to answer each question of the ITC. Each book is clearly marked and colour coded. Candidates are given explicit instructions to write the correct answer in the correct

book. Despite this some candidates did not write the correct answer in the correct book, the secretariat did their best to ensure that candidates who wrote answers in the incorrect book were marked by the correct mark team.

3.7 Irrelevancy

Marks are awarded for quality, not quantity. Verbosity is no substitute for clear, concise, logical thinking and good presentation. Candidates should bear in mind that a display of irrelevant knowledge, however sound, will gain no marks.

3.8 Recommendations / interpretations

Responses to these requirements are generally poor, either because candidates are unable to explain principles that they can apply numerically or because they are reluctant to commit themselves to a course of action. It is essential to make a recommendation when a question calls for it, and to support it with reasons. Not only the direction of the recommendation (i.e. to do or not to do something) is important, but particularly the quality of the arguments – in other words, whether they are relevant to the actual case and whether the final recommendation is consistent with those arguments. Unnecessary time is wasted by stating all the alternatives.

3.9 Examination technique

Examination technique remains the key distinguishing feature between candidates who pass and those that fail. Many candidates did not address what was required by the questions and, for example, provided a discussion where calculations were required or presented financial statements where a discussion of the appropriate disclosure was required.

3.10 Open-book examination

Candidates are reminded that they **MUST** familiarise themselves with SAICA's open book policy and be aware that this may differ from that of their CTA university. Candidates are also reminded that only SAICA has the authority to interpret its own open book policy. To this end candidates are advised of the following:

- No loose pages (of any kind) may be brought into the exam. This includes index pages which were seen by some candidates in this year's exam not to 'supplement texts' and therefore considered acceptable; and
- Writing on flags – As per section 4.4 of the SAICA examination regulations:
'Candidates are only be allowed to highlight, underline, sideline and flag in the permitted texts. Writing on flags is permitted for reference and cross-referencing purposes only, that is, writing may only refer to the name or number of the relevant discipline, standard, statement or section in the legislation'.

In the June sitting, invigilators came across numerous textbooks which were inappropriately flagged by candidates contravening the open book policy. All such cases were presented to Professional Conduct Committee, who disqualified two candidates for 2013 on the grounds of misconduct.

Any contravention of regulation 4 will be considered to be misconduct.

Candidates are advised to familiarise themselves with SAICA's exam rules prior to writing the examination.

Another problem relating to the open-book examination was that candidates did not state the relevant theory and/or definitions in their answers. One cannot build a logical argument without using the theory as a base and starting point. Reference to theory and definitions is essential to create the perspective from which the question is answered and is required to enable markers to follow the argument. However, since candidates have this information at hand, marks are not awarded for stating detailed definitions only. This type of examination does affect the answer that is expected and *application* and demonstration of insight into the use of the definition have gained in importance.

Candidates should also remember that one has to be very well prepared for an open-book examination. There is not enough time in the examination to look up *all* information from the texts. With regard to certain aspects one would be expected to offer an immediate response based on embedded knowledge. Complex information needs to be fully understood before the examination. Candidates who enter the examination hoping to look up data that they have not processed in advance will be at a disadvantage as they are unlikely to finish the papers.

In conclusion, a message to those who were unfortunately not successful in the examination:

Please start preparing for next years' examination in good time. Don't give up - sufficient preparation and a review of the basics will stand you in good stead for next year's exam!

Best of luck!!

PROFESSIONAL PAPER 1

Paper 1 consisted of one scenario that dealt with the following two separate parts:

Question 1 Part A

This question tested accounting and external reporting, counting 60 marks in total. The question examined the following topics:

- Consolidation journal entries;
- Carrying amount of vehicles;
- Goodwill;
- Carrying amount of R&D asset; and
- Consolidated profit before tax

Question1 Part B

This question, based on the same scenario as Part A, tested principles in strategy risk management and governance, counting 40 marks in total. It dealt with the identification of key risks in operations, including governance and strategy.

Presentation marks were available for both questions. These marks were clearly and separately stated in the 'required' sections of each question.

QUESTION 1 Part A

Maximum mark	Average mark	Marks > 50%	Marks < 50%
60	27	290	586

Level of difficulty

Moderate, to difficult.

General comments

Candidates generally performed well in the question. The markers were, however, still disappointed at the mistakes candidates made which resulted in easy marks being lost. The question required a demonstration of technical knowledge, the critical analysis of information and applying principles to different settings. The question appropriately distinguished competent candidates.

Areas the candidates handled well

- Candidates did well in the calculation of goodwill and carrying amount of the leased delivery vehicles.
- Candidates generally attempted all subsections which indicates that time allocated to the question was appropriate. Part (e) was however not always complete and it is difficult to distinguish whether this was due to time constraints or due to a lack of knowledge.

Areas the candidates handled poorly

- Candidates generally did not write enough resulting in loss of marks, as markers were unable to allocate these marks. Furthermore candidates failed to provide insufficient journals.
- Many candidates did not provide any or all the journal narrations in part (a) although this is assumed in presenting journal entries and therefore the communication mark was lost.
- In part (b), two marks were available for providing reasons for the calculated amounts however most candidates did not provide reasons and therefore lost these two marks.

Specific comments on sections of the question

Part (a)

In this section, candidates were required to prepare the pro forma consolidation journal entries to correctly account for investment property in the consolidated financial statements.

The property's manner of recovery changed from property, plant and equipment (use) to investment property, but became PPE again in the consolidated financial statements. Candidates were required to take note of this fact and apply the CGT rate to the fair value adjustment of the investment property, but the current tax rate to the revaluation of the property in the consolidated financial statements.

Candidates who used the incorrect CGT rate were awarded a minus 1 mark and thereafter the incorrect CGT rate was marked through.

In general insufficient journals were provided by candidates and hence candidates did not perform well in this section.

Furthermore, candidates failed to provide journal narrations.

Part (b)

In this section, candidates were required to calculate, with reasons, the carrying amount of the fleet of vehicles.

Candidates did fairly well in this part, although reasons for their decisions were generally not provided. The lack of reasons however did not prevent a candidate attaining the maximum marks of five since there were eight available marks for this section.

Part (c)

In this section, candidates were required to calculate the goodwill arising, if any, on the acquisition of a subsidiary.

Candidates did really well in this part and it was easy to mark since most candidates received full marks for this calculation. This was not very difficult and made up for part (e) where the integration may have caught some candidates out.

Part (d)

In this section, the candidates were required to calculate the carrying amount of the research and development asset.

This was technically more difficult. The candidates that performed well in this section illustrated their ability to apply accounting principles and concepts to the scenario presented.

Candidates who did not perform well in this section did not calculate the impairment loss on the research and development asset. They merely calculated the carrying amount without any reference to the impairment of the asset.

Marks were allocated in part (d) for the calculation of impairment of the research and development asset. Many candidates did not perform this calculation in part (d) but in in part (e) as they realised they needed this number for the consolidated profit. Even though there were no marks allocated in part (e) but one mark for bringing the part (d) calculation through, markers allocated the marks in part (d) to part (e) for the calculation. Candidates in this instance forfeited the one mark in part (e) for bringing the calculation through from (d).

Part (e)

In this section, candidates were required to calculate the consolidated profit before tax for the year ended 31 December 2012.

This section was technically the most difficult. Time may have been a factor as many of the calculations had to be repeated because the calculation required the recalculation for multiple year ends.

Generally candidates did not fare well in this part. Candidates did not present a complete calculation of the consolidated profit. This could have been due to time constraints or due to a lack of knowledge. Generally not enough items were included in the calculation to attain a good mark for this section.

QUESTION 1 Part B

Maximum mark	Average mark	Marks > 50%	Marks < 50%
40	21	535	341

Level of difficulty

Moderate, to difficult.

General comments

The question was reasonably well answered by all candidates who attempted and applied themselves to the information provided in the scenario. Candidates who stuck to the time in Part A of the question were also able to perform reasonably well.

Areas the candidates handled well

Candidates that read the required carefully and answered accordingly based on the information provided in the scenario did well and generally obtained good marks.

In general, communication skills in this part of the question were considered to be good. For example sms- style writing was kept to a minimum and candidates demonstrated a good effort in terms of communication. The layout and structure, clarity of expression and logical argument communication marks were awarded to the majority of candidates.

Areas the candidates handled poorly

Candidates who did not devote sufficient time to the question, as well as candidates that did not base their answers on the information provided in the scenario performed poorly in this question.

Specific comments on sections of the question

The mark allocation focused on a specific company with industry related risks. Limited marks were also awarded for some general industry risks which are critical to business, in South Africa and global environments (such as inadequate supply of electricity, ineffective insurance and competitor risk), relevancy however needed to be demonstrated to obtain such marks.

- Many candidates identified risks, but then failed to EXPLAIN the risks (merely listed risk indicators and did not explain the mitigating factors/recommendations).
- Candidates referenced to external auditors as independent experts instead as referring to them as experts in a specific field of expertise, for example tax expert, JSE listing. etc.
- A number of candidates used substantive audit procedures as mitigation for the operational risks identified. These candidates incorrectly interpreted the required by only identifying the viewpoint of the external auditor.
- A number of candidates interpreted the hedging incorrectly. They referred to hedging of the translation of foreign currency instead to hedge against negative movement in the currency fluctuations.
- The question had sufficient marks to award candidates for both theory and practice. The candidates had to apply their minds regarding mitigating the risks identified.
- A number of students gave too much detail, for example the requirements for the composition of the board in terms of King III, which was not part of the required.
- No candidate referred to the changes in tax legislation regarding dividends.

PROFESSIONAL PAPER 2

Paper 2 consisted of two questions that dealt with the following aspects:

Question 1

This question was a tax question, comprising of 45 marks. It dealt with the following aspects:

- Withholding of dividends tax in terms of section 64 of the income tax act;
- Section 25B in a testamentary trust, gross income and exempt income; and
- Section 25B in a testamentary trust, gross income and exempt income.

Question 2

This question examined financial management for 55 marks. It dealt with the following aspects:

- Working capital management;
- Explain forward and option contracts used as hedging;
- Estimation and concluding on the introduction of proposed settlement discounts;
- Identification and description of discontinuance of manufacturing vs purchasing; and
- Accounting of the settlement discount.

Presentation marks were available for both questions. These marks were clearly and separately stated in the 'required' sections of each question.

QUESTION 1

Maximum mark	Average mark	Marks > 50%	Marks < 50%
45	25	669	207

Level of difficulty

Easy, to moderate.

Main subjects / topics examined in the question

- Dividends tax
- Section 25B- trust calculation
- Section 25B- trust discussion

General comments

None

Areas the candidates handled well

Many candidates did well in the calculation of dividends tax. In part (b) candidates were comfortable in applying the gross income definition and using the correct exemptions.

Areas the candidates handled poorly

Candidates included amounts distributed to beneficiaries in gross income with no regard that it was a distribution from the trust. When working in the trust, most candidates calculated the trust income disregarding the distributions to Dayle and Ann. Some candidates deducted the distributions AFTER the taxable income of the trust was calculated.

In part (c) one could seldom assess the principle that section 25B of the Income Tax Act has been applied. Candidates still struggle to discuss tax legislation

Specific comments on sections of the question

Part (a)

- Many candidates were not up to date with the latest developments relating to dividends tax, and this was evident as STC principles were often used incorrectly.
- Candidates confused STC and Dividends Tax.
- STC credits were not used to reduce the dividend and if they were used, the wrong STC credits were used. Candidates do not know how to calculate the STC credit.

Often the incorrect rate for Dividends Tax was used, 10% or 12,5% or 14% or 15/115 instead of the correct 15%.

Many candidates failed to answer the actual required and didn't provide the amount of dividends tax that needed to have been withheld.

Part (b)

- Overall the understanding of the taxation of amounts relating to trusts and beneficiaries was lacking.

- The distributions between the various taxpayers were handled incorrectly, although only the principles were marked. Candidates appear not to understand the basic concepts that relates to different types of taxpayers.
- Candidates did not understand the foreign dividend exemption and often used the incorrect ratio.
- Candidates treated the same amount inconsistently, and often subjected that amount to double tax. Each tax entity was dealt with separately resulting in candidates failure to link the trust and the beneficiaries.
- Candidates applied the interest exemption in terms of s 10(1)(i)(xv) to the trust incorrectly. If they did not apply the interest exemption, they also did not state that the interest exemption is not applicable to the trust but only applicable to natural persons.
- The inclusion of gross income and applying the correct exemption in terms of section 10 was missed by most candidates.

Part (c)

- Candidates continue to struggle to answer discursive type questions.
- Overall students did not do well in this section.
- Candidates did not identify that this was a testamentary trust and that s25B was applicable.
- Candidates appear not to understand capital distributions from a trust and how this should be treated once it has been distributed.
- Candidates were not aware that amounts not vested in a testamentary trust during the year of assessment will be taxed in the trust itself.
- Many candidates were not aware of the partial foreign dividend exemption available in s10B(3).
- The withholding tax rebate (s 6quat) was not discussed by many.

QUESTION 2

Maximum mark	Average mark	Marks > 50%	Marks < 50%
55	21	46	830

Level of difficulty

Moderate.

General comments

- Part (a) required candidates to analyse and discuss the profitability and working capital management of Ithemba.
- Part (b) asked candidates to identify ways in which foreign currency exposure could be hedged.
- Part (c) required candidates to estimate the impact on profits and profitability of introducing the proposed settlement discount.
- Part (d) dealt with strategy – candidates were required to identify the key factors to be considered in deciding whether to continue manufacturing a product or whether to import such product.
- Candidates were required to describe the appropriate accounting treatment for settlement discounts in part (e).

Candidates overall performance in the question was most disappointing with an average mark of 39% being achieved. Candidates struggled with sections (b) and (c) in particular.

The average mark in part (e) was 26% which was disappointing given that this was a simple financial accounting question. Part (e) did not require any integration of financial management and financial accounting knowledge.

Areas the candidates handled poorly

Part (a)

The mark plan had 14 available marks for performing appropriate calculations of ratios and 21 marks for discussion of these ratios. It follows that candidates could have achieved 16 possible marks (14 for calculations plus 2 for communication) without any discussion. Unfortunately most candidates did not avail themselves of this opportunity.

Ratio calculations were generally performed adequately. The discussion of ratios was however, very poor in general. Candidates should be aware that no marks are awarded for repeating the results of ratios in words. For example, the gross profit margin declined from 40.1% to 36.5% in 2012 – merely stating this fact did not attract a mark. Candidates could have obtained a mark by questioning why the gross profit margin had declined and suggesting that this needed to be investigated.

Further examples of comments made by candidates which displayed a lack of insight and application included:

- "...the gross profit percentage declined due to increased cost of sales...". That is not necessarily correct as sales could have increased by more than cost of sales thereby improving gross profit margin

- "...finance costs increased as the bank overdraft increased..." Yes, that it is true but it is merely repeating what was given in the question. Candidates should rather identify why bank overdraft increased and/or note that finance costs had increased by more than the increase in EBIT.

Candidates battled with interpreting ratios and merely commented on worsening working capital and profitability without providing insight specific to the industry and environment that Ithemba operates in.

Part (b)

Most candidates performed dismally in this section. There appears to be a lack of application of how hedging instruments are able to mitigate against adverse foreign currency movements. Candidates generally bumbled on trying to explain hedging theory but were unable to comment on how these instruments actually work.

Part (c)

The majority of candidates were flummoxed by this section. They were unable to perform any sensible calculations to estimate the impact of the introduction of a settlement discount on profits and cash flows. The required calculations were not difficult by nature and we were surprised that candidates did not perform better. It would appear that candidates were unable to interpret the information in the question to be able to perform relevant calculations.

A limited number of candidates attempted to calculate the increase in trade receivables and inventories expected to result from the introduction of a settlement discount. Very few candidates considered the potential higher finance costs resulting from higher working capital balances.

The question required an estimate of the impact on profits and cash flows. Many candidates assumed these to be the same amounts which displays a fundamental lack of knowledge or inability to read the required.

Part (d)

This part required candidates to discuss the key factors to be considered in evaluating whether to continue manufacturing a product or whether to purchase product from an overseas based supplier. Candidates performed adequately in this section but answers lacked sufficient depth – insufficient factors were listed and discussed.

Part (e)

Part (e) was a simple financial accounting question requiring a discussion of how Ithemba should account for settlement discounts. The theory is clear regarding this and without reference to the appropriate accounting standards, candidates should have been able to explain the appropriate accounting treatment. Most failed to express any clear thoughts on the matter.

It was concerning to note that certain candidates provided alternate answers to the question in the hope that one of these was correct. These candidates did not achieve the communication mark available for logical argument.

PROFESSIONAL PAPER 3

Paper 3 consisted of two questions that dealt with the following aspects:

Question 1

The question focused on auditing and assurance, counting, 80 marks. It dealt with the following aspects:

- Financial accounting (PV calculation of loan);
- Risk assessment;
- Internal control weaknesses- improvements and audit response;
- Substantive procedures- related party loan; and
- Inventory – risk of material misstatement and substantive procedures.

Question 2

The question was a tax discussion question, counting 20 marks. It dealt with the preparation of a memorandum discussing tax avoidance arrangement and its permissibility.

Presentation marks were available for both questions. These marks were clearly and separately stated in the 'required' sections of each question.

QUESTION 1

Maximum mark	Average mark	Marks > 50%	Marks < 50%
80	43	603	273

Level of difficulty

Moderate, to difficult.

Main subjects / topics examined in the question

The question consisted of 80 marks covering risk of material misstatement at the overall financial statement level, control weaknesses and audit responses for a revenue and receivables cycle, substantive procedures on related party transactions (including companies act requirements) and substantive procedures on inventory as well as risk of material misstatement at the assertion level for inventory.

General comments

The question was relevant, topical and considered to be a well-set question, with adequate topic coverage of the syllabus. The aspects examined are considered to be important, and relevant, integrating risks, controls and audit procedures.

The question was reasonably well answered by the candidates who applied the information in the scenario to the required part (as opposed to candidates who made a “memory dump” of general risks/procedures)

Examination technique should be improved. Many candidates did not read and consider the information in the scenario carefully, nor did they apply the information in answering the question.

Areas the candidates handled well

Candidates handled the section on substantive procedures and risk of material misstatement of inventory reasonably well.

Areas the candidates handled poorly

Candidates had difficulty with section (b) which dealt with risk assessment.

Specific comments on sections of the question

Part (a)

Most candidates obtained either 2 or 3 out of the maximum of 3 marks for this section. The candidates that did not obtain 3 marks, utilised the incorrect interest rate of 12,5%, and/or slotted incorrectly the R8 million in as ‘PV’ when doing the calculation, and in effect then calculated a ‘FV’.

Part (b)

Many candidates misinterpreted this part of the required, and thought that it had something to do with the audit strategy.

Candidates struggled to link the risks of material misstatement to the financial statements, and to the assertions. In many instances, they simply wrote the factor that causes the risk, straight from the scenario.

The risk assessment procedures to be performed by the auditor, was not included in the answers of most of the candidates.

Many candidates did not properly understand the required of identifying risks at the overall financial statement level and risks at the assertion level. Many candidates gave substantive audit procedures and tests of controls and not risks. For example, candidates gave substantive procedures on how to audit debtors, inventory (particularly net realisable value), going concern assumptions etc.

Some candidates only wrote questions and not risks. They asked questions such as:

- “Do we as the auditors believe the company is a going concern?”
- “Did we consider possible fraud indications?”
- “Can we place reliance on controls and the internal control environment?”

Many candidates identified the main issues, but could not link the issues to risks at the assertion level. For example, many candidates were able to identify the poor economic conditions and the possibility of non-paying customers. They struggled, however, to link this to either a going concern risk or a risk of under-provision for allowance for credit losses.

Overall, part (b) was the worst attempted part of this question.

Part (c)

Generally, candidates were able to correctly identify what was required of them. Many candidates wrote manual improvements to the system, instead of correctly identifying certain functions as computerised (such as the matching and processing of the invoices).

Even though detailed audit procedures were not required, there were still many candidates who incorrectly formulated detailed audit procedures.

There were a few incidents where candidates did not correctly grasp the concept that, where controls cannot be relied upon, a substantive approach is to be followed. These candidates instead suggested that thorough tests of controls are to be performed, due to the weaknesses in the controls.

The majority of candidates did well in the ‘proposed improvements’ in part (i) of this section. It seemed that the second part (ii) reduce the impact) was a bit more challenging.

Part (d)

Candidates identified most of the procedures to be performed, but it was evident that the formulation of the procedures was a problem. Many candidates formulated vague audit procedures, or simply listed the Companies Act requirements, without formulating procedures. There were some candidates writing ‘statements’ as opposed to substantive procedures.

Many candidates failed to identify the Companies Act requirements pertaining to this loan. These candidates only gave substantive audit procedures on how the loan balance and transactions should be audited and missed out on easy marks relating to the Companies Act.

Many candidates did not differentiate correctly between shareholders and directors (e.g. a candidate will state that the directors should pass a special resolution).

Candidates performed well in this question.

Part (e)

Candidates were able to identify most of the risks, but many candidates were unable to identify that one risk factor might have more than one risk of material misstatement linked to it.

Some candidates wrote vague statements, such as “no controls over inventory”; “inventory may not exist” or “inventory may be stolen”, without correctly identifying why it is a risk, or what exactly the risk of misstatement is.

Candidates sometimes forget about the “easy” general procedures such as obtaining a management representation letter, or obtaining a schedule and tracing it to the financial records.

Some candidates only focused on one part of the inventory audit, such as the inventory count, or the calculation of the provisions, and neglected other procedures also to be performed.

Audit procedures were again (as in part d) formulated very vaguely in some instances (e.g. a candidate would simply write “test the accuracy of the provision” without stating exactly how one would test for this).

In part (ii) it was clear that some candidates started to run out of time answering this section and maybe didn't plan well enough to allocate sufficient time to attempt section (ii).

QUESTION 2

Maximum mark	Average mark	Marks > 50%	Marks < 50%
20	11	605	271

Level of difficulty

Moderate.

Main subjects / topics examined in the question

Candidates were required to prepare a memorandum to Dr John Rentalittle in which they candidates needed to discuss whether the agreement stipulated in the information given in the scenario constitutes an impermissible avoidance arrangement and to discuss possible implications for Dr Rentalittle should the arrangement be an impermissible avoidance arrangement. The candidates were not required to refer to case law.

General Comments

- The 'tainted element' lack of commercial substance was not asked in the required yet a number of candidates discussed this in a great amount of detail and wasted valuable time.
- There were easy theory marks that some candidates missed because they were unable to first refer to the applicable provisions within the legislation before applying the information within the scenario to the correct legislation – candidates should refer to the required and the mark allocation to determine the amount of detail required from them.
- A number of candidates still referred to the old GAAR (s 103 of the Income Tax Act), demonstrating that candidates do not keep up to date with the changes in legislation.
- Some candidates struggled to express themselves appropriately.
- Candidates appeared to struggle with managing their time. The majority of candidates attempted the question however it was evident from the attempts that candidates time was constrained as most 'cut and paste' and referenced to the legislation. Candidates appeared to have run out of time and therefore did not apply or address the provisions of s 13sex of the Income Tax Act.
- Most candidates only discussed the presence of the possible tax benefit should Dr Rentalittle be able to qualify for a s 13sex capital allowance and most candidates failed to calculate the possible tax benefit even though enough information was provided to do a calculation.

Areas which candidates handled well

- Candidates answered the discussion without use of sms/text language.
- The majority of candidates identified and discussed that the application of the provision of s13sex of the Income Tax Act would result in a 'tax benefit' for the taxpayer.
- Candidates mostly used the correct format of stating a principle/requirement and then applying it to the facts of the question.
- The majority of the candidates provided a conclusion.
- Most candidates listed possible implications to Dr Rentalittle as if the arrangement was an impermissible avoidance arrangement.

Areas the candidates handled poorly

- With the requirement of the presence of a 'tainted element' candidates simply rewrote the provisions from the legislation and applied the information for both a business and other context instead of identifying whether the information related to either a business or other

context and applied only one. Only a small number of candidates identified that the information provided related to a business context.

- Candidates did not structure their answer – their thoughts did not follow a logical manner and it appeared as if candidates lack an understanding of basic principles.
- Candidates should ensure they only come to one conclusion and clearly link their conclusion to arguments presented in their solution.

Specific comments on sections of the question

- Many candidates neglected to discuss all the requirements of the general anti-avoidance provision (GAAR).
- Candidates failed to mention that all elements/requirements of GAAR should be present or met before SARS could deem the arrangement to be an impermissible avoidance arrangement and invoke the provisions of s 80B of the Income Tax Act.
- The first requirement of an impermissible avoidance arrangement requires that an 'arrangement' must be present. A limited number of candidates discussed what the requirements of an arrangement are (s 80L of the Income Tax Act define an arrangement) and candidates failed to apply the information by stating whether the agreement between Dr Rentalittle and his son constitutes an arrangement.
- There were candidates who did not write in a memorandum format and lost out on an easy communication skill marks.
- Candidates correctly referred to the requirement that SARS could presume that the sole or main purpose of any arrangement was to obtain a tax benefit unless the contrary has been proven by the taxpayer but failed to apply this requirement to the information provided by stating whether the agreement entered into by Dr Rentalittle's sole or main purpose was to obtain a tax benefit and that Dr Rentalittle will have to prove the alternative if a tax benefit was not Dr Rentalittle's sole or main purpose for entering into the agreement. This was an easy mark that was lost due to poor exam technique of not applying the given information to every point made.

PROFESSIONAL PAPER 4

Paper 4 consisted of two questions that dealt with the following aspects:

Question 1

This was an accounting and external reporting question for 44 marks in total. It dealt with the following aspects:

- Financial Instruments: Debt/ equity journals;
- Financial instruments: Shares and sale thereof;
- Financial Instruments: Investment in pref shares; and
- Financial Instruments: Options.

Question 2

This was a management and decision making and control question for 56 marks in total. It dealt with the following aspects:

- Decision making, based on first year profitability only;
- Risk- analysis associated with alternate decisions ;
- Pricing theory and strategy;
- Impact analysis of pricing strategy; and
- Revision of cost apportionment approach.

Presentation marks were available for the question. These marks were clearly and separately stated in the 'required' sections of each question.

QUESTION 1

Maximum mark	Average mark	Marks > 50%	Marks < 50%
44	17	132	744

Level of difficulty

Moderate.

Main subjects / topics examined in the question

This question was an external reporting question counting 44 marks in total, although tax also had to be taken into account in answering the question. The question dealt with:

- Part (a) – preparation of the journal entries required to record the initial and subsequent recognition and measurement of convertible debentures;
- Part (b) – preparation of the journal entries required to record the subsequent measurement and sale of an investment in shares in the entity's separate financial statements;
- Part (c) – preparation of an internal memorandum discussing the appropriate classification, recognition and measurement of an investment in convertible preference shares. Marks were awarded for the use of the appropriate report structure, and for a logical argument; and
- Part (d) – discussion of the correct classification, recognition and measurement of an option to acquire ordinary shares. Marks were awarded for logical argument.

In total 5 marks were awarded for communication skills (included above).

General comments

The question did not only require a demonstration of technical knowledge, but also the competencies of critically analysing information and applying principles in an integrated manner to different settings, amongst others.

Areas the candidates handled well

- Candidates generally attempted all subsections which indicates that time allocated to the question was appropriate.
- The majority of candidates presented their memorandum (part (c)) appropriately using communication skills appropriate at this level.

Areas the candidates handled poorly

A few areas should however be highlighted, which may be of use to candidates for future examination purposes:

- Many candidates did not provide any or all the journal narrations in part (a) and part (b) although this is assumed in presenting journal entries.
- On the whole candidates provided very limited journal entries in part (b), thereby limiting the marks attained in this sub-section.
- In respect of the discursive parts (c) and (d), most candidates lost out on many marks due to lack of articulation of the step-by-step application of principles, i.e. candidates knew the final answer but did not write enough before arriving at such conclusion. Alternatively there were candidates who discussed the relevant classification, recognition and measurement requirements in light of the scenario presented yet the conclusion reached was not supported by the argument presented.
- There were a notable number of candidates who discussed the accounting treatment required for the convertible preference shares in part (c) from the issuer's perspective as opposed to the holder's perspective, which was what was required.

Specific comments on sections of the question

Part (a)

In this section, candidates were required to prepare journal entries recording the initial and subsequent recognition and measurement of the convertible debentures.

Candidates who performed well were those who identified the compound financial instrument, performed the present value calculation correctly and accurately apportioned the transaction costs between the equity and financial liability components. Furthermore, if a candidate identified that it was necessary to determine a new effective interest rate (as a result of the recognition of the transaction costs) such a candidate was able to do very well.

The following are examples of mistakes made by candidates in this section:

- The entire instrument was recognised as a financial liability;
- A compound financial instrument was recognised, yet the inputs used in performing the present value calculation in order to determine the fair value of the financial liability component were incorrect; and
- The transaction costs were expensed.

As stated earlier, candidates also did not provide journal narrations.

Part (b)

In this section, candidates were required to prepare journal entries recording the subsequent measurement and sale of an investment in shares in the entity's separate financial statements.

There were several methods available to candidates in answering this question. One method entailed the recognition of a fair value adjustment relating to the entire investment prior to the sale of a portion of the investment. An alternative method entailed the recognition of a fair value adjustment relating to merely the portion of the investment sold, with the fair value adjustment relating to the remaining investment being recognised at year end. The journal entries relating to deferred taxation could also be processed on a gross or net basis.

Candidates who performed well were able to identify the various components of this transaction, and accounted for such components in a step-by-step manner. Such candidates were also able to identify that it was necessary to make a transfer within equity resulting from the disposal of a portion of the investment in shares.

Candidates who did not perform well were those who made the following errors or omissions:

- Candidates failed to provide basic journal entries or an adequate number of journal entries thereby not accounting for the sale of the shares and the related fair value adjustments in their entirety, and as a result limiting the number of marks awarded;
- Candidates incorrectly recognised the fair value adjustments in profit or loss, as opposed to other comprehensive income; and
- Candidates provided unnecessary and incorrect deferred tax journal entries which suggest a lack of understanding of this concept.

The rate change was rarely identified by the candidates, and as such the CGT inclusion rate of 66.6% or 50% was used throughout the financial reporting period.

As stated earlier, candidates also did not provide journal narrations.

Part (c)

In this section, candidates were required to prepare an internal memorandum discussing the appropriate classification, recognition and measurement of an investment in convertible preference shares. Marks were awarded for the use of the appropriate report structure, and for logical argument.

Candidates who performed well in this sub-section were able to present a logical and well-structured argument in which the aspects of classification, recognition and measurement were addressed. Furthermore, such candidates demonstrated an ability to apply accounting principles and concepts to the scenario presented.

On the whole candidates presented the discussion using the correct memorandum format.

Candidates who did not perform well commonly made the following errors or omissions:

- Candidates presented a discussion which considered the accounting treatment of the convertible debentures from the issuer's perspective, as opposed to the holder's perspective which is what was required;
- Candidates did not discuss the aspects of classification, recognition and measurement in the correct, logical order, thereby presenting a weak argument which had a tendency to be incomplete; and
- Candidates provided a conclusion which was in contradiction to the argument presented.

Part (d)

In this section, candidates were required to discuss the correct classification, recognition and measurement of an option to acquire ordinary shares. Marks were awarded for logical argument.

Candidates who performed well were those who were able to provide a discussion, which represented a combination of the application of principles to the scenario presented and supporting calculations.

Candidates, who did not perform well, were those who made the following errors or omissions:

- Candidates did not provide supporting calculations; and
- Candidates discussed the shares and not the option.

QUESTION 2

Maximum mark	Average mark	Marks > 50%	Marks < 50%
56	24	178	698

Level of difficulty

Fair, to moderate.

Main subjects / topics examined in the question

This section dealt in entirety with management accounting concepts, summarised as follows:

- Part (a) – calculation and evaluation of the profitability impact of two options and candidates needed to identify production constraints, incorporating both labour overtime premiums and once-off costs;
- Part (b) – the identification and discussion of specific factors to be considered prior to the final selection in respect of the options evaluated in (a);
- Part (c) – calculation of a pricing strategy decision, incorporating a provided methodology, based on the respective options was required;
- Part (d) – the pitfalls and merits of the strategy provided in part (c) had to be discussed and evaluated; and
- Part (e) – the impact of a change in the recovery rate basis on the cost of the two options (products) had to be calculated.

Three marks were awarded for communication, clarity of expression and logical argument.

General comments

Many candidates did not think through what the critical issues were and what the assessment required of them and were guilty of making fundamental errors.

Candidates in general, scored most of their marks in the calculation sections (parts a, c and e) and demonstrated a weakness for critical thinking and application of knowledge in the discussion type sections of the assessment.

Areas the candidates handled well

- All sections, with a minor exception for parts (c) and (d), were attempted suggesting that time allocated to the question was appropriate and the reason candidates were inclined to skip the mentioned parts of the question was due to the non-familiarity of topic.
- Candidates showed sufficient communication and clarity of expression skills.

Areas the candidates handled poorly

- Some candidates showed a lack of thought processes and instead of leading the information provided to a meaningful management conclusion, they were guilty of forcing the provided information into an approach they believed the question demanded based perhaps on previous similar proto-type questions. This demonstrates a lack of critical thinking and logical argument.
- Many candidates made fundamental errors such as adding machine and labour hours or even adding cost and non-cost items together etc.
- Candidates demonstrated a weakness for specific critical thinking in the discursive type questions and provided generic and non-specific factors that were vague and indistinguishable

as to which products they related to. Inadequate distinction was made as to how the suggested factors impacted the respective options.

- Carry through of thought processes was also weak e.g. overtime premiums and once off costs calculated in part (a) were not considered when addressing parts (c) and (e) etc. as required.

Specific comments on sections of the question

Part (a)

Many candidates performed the best in this part, as it was mainly calculation based. However, a disappointing number of candidates did not recognise that they needed to determine whether labour and / or machine hours were a limiting factor. Furthermore the question explicitly indicating that Eficaz did not have sufficient manufacturing capacity to pursue both opportunities, and that one option only was to be selected, some candidates considered both options. Other common errors made by candidates included:

- Many candidates battled to convey their answer in a logical manner. They would either start with cost per unit or work in totals, but somewhere in the middle they would switch to the other; any many times switch back again.
- Double accounting for the normal cost of overtime i.e. when calculating the total labour cost for producing IN223, took the full 30 000 hours x the normal rate of R60 and then calculated the overtime premium as 4 400 hours x R90 instead of 4400 hours x R30.
- Few candidates provided an explanation of why fixed costs were excluded and most of those who did either incorrectly stated that they were sunk costs or were too vague in simply saying they were “irrelevant”. We expected candidates to identify that these costs were unavoidable irrespective of which option was to be selected – with a potential in fact of reducing the fixed cost if neither option was to be selected.
- Few candidates gave an explanation for how and / or why they had considered the modification costs required to manufacture IN 223. Providing an explanation was particularly important given the ambiguity in the question relating to these costs. Candidates at this level need to be able to support their selected approach.
- Some candidates did not consider the modification costs required to manufacture IN223 at all. Of those who did recognise the need to include these costs, most correctly deducted ABC’s contribution of R50 000 towards the cost. Few candidates realised the need to amortise these costs over three years (or to provide an explanation of the impact of not amortising them).

A number of candidates who did realise the need to determine whether there were any limiting resources made the following errors when considering the impact of the limited resources:

- The question indicated that Eficaz did not have sufficient manufacturing capacity to pursue both opportunities. This meant that the two options were mutually exclusive. Some candidates however incorrectly considered the combined machine and labour hours required for both opportunities being evaluated, instead of considering the hours required by each option separately.
- Not all of these candidates explicitly concluded whether there were any limiting factors.
- Candidates regarded costs directly associated with either of the options e.g. raw materials or labour as irrelevant.
- Candidates were reckless/careless and made no distinction between the denomination of amounts given e.g. Rand values, machine hours, labour hours etc. and treated them as the same by adding/subtracting them to/from each other etc.

Part (b)

Given the qualitative nature of this part, it was expected that candidates on the whole performed very poorly in this section. Very few candidates demonstrated the ability to relate their answers to

the scenario given. Most factors given were very vague and / or generic and / or did not contrast between the two options being evaluated. A number of factors were also given that related to what should have been provided / applied in part (a) of the question and therefore no marks were awarded for this. Candidates were guilty of not thinking through exactly what the question required of them and resorted to a 'laundry list' of risk factors. It presented a typical case of some candidates scoring several marks for just a few lines while others scored virtually no marks for pages and pages of written responses.

Few candidates organised their answers in a logical manner and therefore a number of candidates were penalised for communication skills.

Part (c)

Hardly any candidates recognised the need to include the machine modification cost allocation in determining the selling price of IN223. Likewise, few candidates included the overtime premium. An impression was that the example provided, in part, was a cause (although inexcusable) for this as neither of these costs (and rightfully so) were incorporated in the example.

Some candidates treated the machine hour recovery as part of the manufacturing cost rather than a mark-up which needed to be added to the manufacturing cost.

Some candidates incorrectly included the 30% target GP margin over and above the machine hour recovery.

Part (d)

As with part (b), this part was poorly answered.

Many of the candidates didn't understand that this part dealt with a pricing strategy and answered it as if it related to a cost allocation strategy.

Once again, as in part (b), many of the points made by candidates were very vague.

Part (e)

This part was reasonably well attempted. However, almost all candidates didn't include the planned overtime hours in calculating the total available labour hours for producing IN223. Very few candidates, despite including the planned overtime hours (if any at all), provided an explanation of why they had done so.